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YEAR
1970

Blue Shield of Florida, Inc.



ANNUAL REPORT—1970

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**ANNUAL
MEETING
MAY 6, 1971**

FOR THE YEAR ENDED DECEMBER 31, 1970

PRESIDENT'S ANNUAL MESSAGE



The past year marked the 25th Anniversary of Blue Shield of Florida! It also represents the beginning of a new decade — one which presents significant challenges. In this era of turmoil and unrest it is easy to focus upon the problems confronting us; and to pay very little attention to our achievements. However, significant progress in steady growth and accomplishments has occurred since our last annual session of Active Members one year ago. This helps to place the difficulties in perspective; and permits an enthusiastic consideration of the future.

Executive Staff

Our factual summary of operations has been presented to you earlier. Reference to that report will give you detailed information concerning management. We are very proud of the efficiency and ability of our Executive Staff, as reflected in their anticipation of problems, precision of action, unswerving adherence to principles of good business and apparent ease in handling a tremendous volume of work. The Florida Plan is highly respected by the National Association of Blue Shield and by many other organizations intimately connected with prepaid health insurance.

Board of Directors

During the past three years there have been several changes in the personnel comprising our Board of Directors. With this influx of new members, different approaches and varied ideas have occurred. But the common denominator, apparent in all discussion and consideration of problems, has been the sincerity and dedication of Board members toward finding the correct answers. Agenda for formal meetings has been voluminous, requiring lengthy sessions. Full discussion of all committee reports or recommendations has occurred before any specific action by the Board was taken. This fine group of nine laymen and thirteen physicians deserves

great appreciation and commendation for their devotion to duty and diligence in guiding the destinies of Florida Blue Shield.

Costs: Role of the Physician

Escalation of costs for medical and health care has been a source of general concern. Many factors, including inflation and the spiral of living costs, have been incriminated in studies of this subject. The physician, as an individual, plays a significant role in control. Although his primary effort is the maintenance of high quality professional service for the patient, it is equally true that his influence and good judgment are essential in attempts to conserve the patient's dollar. Each day the physician must decide whether hospitalization is necessary; how many and what laboratory procedures are indicated; when radiological studies, or other ancillary services are needed; or what prescription drugs must be purchased. A vast majority of physicians in our state are doing these



Warren W. Quillian, M.D.
President Chairman of the Board of Directors

PRESIDENT'S MESSAGE CONTINUED . . .

things daily and conscientiously. In questions of doubt, conferences and consultations with fellow practitioners are available. Although physician fees constitute a relatively small portion of health care expense, many services are initiated and ordered directly by the "Doctor in charge", thus giving to him a definite responsibility in cost control. It has become possible to determine the small number whose patterns of practice do not conform to normal standards. Yet, hospital expenses continue to rise. One factor affecting this upward curve is the demands of many health insurance subscribers for extension of benefits, amounting to complete defrayal of expenses incurred during periods of illness and hospitalization. This necessitates increased rates for insurance coverage. And we have been blamed by some for this inevitable result.

Health Data System For Hospital Utilization

On July 10, 1970, the Florida Blue Shield and Blue Cross Boards of Directors each allocated \$6,000.00 for a pilot program of hospital utilization study in Duval County. The project was endorsed and supported by the Duval County Medical Society and the Jacksonville Hospital Council. Doctors and Hospital Administrators there have volunteered their time, talent and services in the effort, the purpose of which is the evaluation of material from hospital records (all discharges) in order to establish normal utilization standards for various types of clinical cases. Our function in Blue Shield has been to provide data processing; and to help in defrayal of administrative expenses incurred during the initiation and processing of the program. Essential data on all patients from the ten participating hospitals (included in the Health Data System) have been sent at regular intervals to each hospital, and to the Utilization Committee of the Duval County Medical Society. This has stimulated interest in utilization review of hospital stays, and has strengthened county utilization committees, developing statistics important for evaluation by other County and State Committees. Information accumulated in the project has great potential value in application to normal practice patterns. It is hoped that similar, self-sustaining programs will be developed on a local basis.

Governmental Programs

The governmental programs which we now administer under contractual regulations include: Medicare "Part B"; Champus; and that portion of Title XIX for eligible persons past the age of 65 years ("Medicaid 65"). Frequently, proposals and directives for changes occur in the administration of the Medicare — Part "B" Law. We are fortunate now in being represented on the Carrier Representative Group by Mr. W. J. Stansell, our Senior Vice President, who has recently been accorded this recognition. This small group consists of ten executives representing Carriers which administer Part "B". Their purpose is to consult and advise the Social Security Administration regarding Carrier-SSA relationships. Mr. John Herbert, our Executive Vice President, has recently been named Chairman of the Governmental Programs Committee of the National Association of Blue Shield Plans. So, we are in good hands!

In addition, the Regional Representative for the H.E.W. Bureau of Health Insurance has visited some of the county medical societies with problems; and has participated in conferences designed for mediation or solution. He has expressed a desire for better mutual understanding and communication with organized medicine. Many decisions of SSA have been protested by us, after thorough evaluation and discussions by our Committee on Governmental Programs, which consists of four Past Presidents of the Florida Medical Association plus Legal Counsel for the Board.

Negotiations between Blue Shield of Florida and the Social Security Administration for the Medicare "B" Contract during the year beginning July 1, 1970, were concluded satisfactorily, within the guidelines recommended by our Blue Shield Committee on Governmental Programs, and approved by the Blue Shield Board of Directors. We have fought consistently for the rights and prerogatives of the private practice of medicine. Efforts in this respect have sometimes been misinterpreted by physicians of the state. Multiple difficulties are encountered because of our contractual responsibilities as Carrier for Medicare Part "B". The Committee of 17 (FMA Advisory Committee to Blue Shield and Fiscal Intermediaries), and its able Chairman,

John C. Fletcher, M. D., have been most helpful in their understanding and attempts to solve the problems which have developed. Individual claims are now being handled more promptly; and, under usual circumstances, are processed expeditiously. Peer utilization review is an essential component for fair treatment of all concerned, in most instances. Blue Shield is grateful for the expertise, good judgment and advice of Florida physicians in determining the proper utilization of benefits in the programs that have been designed. Medical consultants are always available, and often function with Staff in the consideration of questionable claims.

Highlights In Recent Progress

Certain highlights of progress during 1970-71 should be noted:

(1) Blue Shield of Florida and Blue Cross of Florida have become members of a consortium, or syndicate, consisting of four Plans (Michigan, Illinois, Florida and Texas), the National Association of Blue Shield Plans, and the Blue Cross Association. This was established for the purpose of developing a data processing system, which will become available for use by members of the consortium. Due to increased growth in private business plus governmental obligations, demands have become excessive. This has made it impossible for a single Plan to design each phase of systems operation. Under the new arrangement each of the participating Plans will be the master systems developer of one operational phase; although all of them will participate in data collection.

(2) Our Building Program, designed to satisfy the needs for additional space and facilities commensurate with the normal growth and development of Blue Shield and Blue Cross during the next few years, has been approved by the Florida State Treasurer (Insurance Commissioner.)

(3) A Joint Informational Meeting has been planned in July (1971) for the Boards of Directors of Blue Shield and Blue Cross, such as has been held each summer since 1967. These occasions provide an opportunity for discussion of mutual problems and closer liaison for integrated Committees of both organizations.

(4) As an attempt to improve Blue Shield's rapport with the individual physician, and in order to emphasize our need for his help

and cooperation, we have introduced certain innovations this year:

Summaries of reports and action taken by the Blue Shield Board of Directors at regular sessions have been sent to members of the F.M.A. House of Delegates, and to the President of each County Medical Society, for information. Members of the Board of Governors, F.M.A. Officers, and the Committee of 17 have attended official meetings of the Blue Shield Board of Directors. The Chairman of the Board and Executive Vice President of Blue Shield have met, by invitation, with the F.M.A. Board of Governors. A report from our Department of Physician Relations indicates that much of their effort during the year has been directed toward conferences with individual physicians of the state concerning claims and problems originating from Medicare. The Professional Relations Committee of our Board (L. Myrl Spivey, M. D., Chairman) has attempted to reach the physician in private practice and to describe the reciprocal relationship of Blue Shield and the Doctor.

(5) Many articles in the news media have been critical of Blue Shield and Blue Cross. Most of these refer to specific examples in the national scene, but they are interpreted, superficially by the reader, as related to the Florida Plan. Recently, an informational position paper was sent to each employee of Blue Shield and Blue Cross in Florida, in number more than 2,100, outlining our official position; and elaborating upon the theme: "Who, What and Where We Are." This idea, conceived and developed by Mr. Herbert, was designed to make them more knowledgeable about the organization for which they work, and better able to defend its policies. (Copies are available for anybody else who desires one.)

We can say, with confidence, that there have been noteworthy achievements in the past; and that our challenges for the future will be demanding. There will be increasing needs for action and decisions requiring the cooperative effort of Blue Shield and its sponsor: the physicians of Florida. Together, we can maintain high standards of quality care and strengthen our efforts to meet successfully the challenges which the future holds.

Warren W. Quillian M.D.

Warren W. Quillian, M. D.,
President/Chairman of the Board

REPORT of THE EXECUTIVE VICE PRESIDENT

Nineteen hundred and seventy, like every year since Blue Shield got under way in 1946, was a busy and eventful year for the administrative organization, as well as for our policy making Board of Directors.

We increased our enrollment by 115,303 subscribers — (the largest gain in our history). Our total enrollment stood at 1,304,487 on December 31, 1970. Total payments for services received by our subscribers amounted to \$28,467,718.69, again, the largest amount we paid, exceeding last year by \$4,559,593.08.

Our look ahead still indicates that additional space will be required, and we are pursuing that end. Of equal importance are the orders which we have placed for data processing equipment — to be available to us in January, 1973 — which will increase our present capacity by 25%. More important, if we are called upon to serve beyond our present planning, we could keep the equipment we now have and also take on the new, since we are considering compatible modes of operations in the new and the present equipment. So much for space and equipment planning.

What about manpower requirements for the future? We are looking at that most essential requirement in two ways — first, in-house training, and second, by exposure to outside seminars specifically designed for Blue Shield personnel, and through our tuition refund program, which encourages our personnel to upgrade their educational levels. Our promotions will continue to be from within, except for highly specialized personnel needs, and here we will look to other Blue Shield Plans first for aid. By improved administrative efficiency we have held the line on personnel hiring, and finished the year with fewer personnel than we started with, despite increased volumes of work in both Blue Shield and government programs areas.

Several items of proposed legislation would seriously hamper our efforts to provide the maximum return to members in the way of benefits. One of these is the move by the State Legislature to subject us to a premium tax equal to that charged out-of-state insurers, of 2% of gross income. This would cost Blue Shield approximately \$680,000 on current income (1970), and could not be paid by the corporation without passing it on to the members. This is really a tax on people who are trying to be provident and set money aside to help pay their physicians' bills. A tax of this kind is most regressive, and is one of the most vicious types of taxation. At a time when everyone is concerned and alarmed over high health costs, the saddling of a prepaid health program like Blue Shield with this additional load is against the public interest, and we have vigorously opposed it. Another proposal is for a corporate profit tax, which would affect us less, but would still take away some portion of income that could be devoted to benefits. We will oppose this tax also, as not being in the public interest.

Progress is being made on the use of a uniform coding system, in that the National Association of Blue Shield Plans is working with a group from the American Medical Association on a way to convert our NABSP codes to CPT and vice versa. We are looking forward to this because with one system, possibly more physicians may begin to use coding in their claims submissions. It is estimated that 300 codes cover 90% of all services rendered, but 60% of all physicians do not now use any codes, and many use descriptive terminology that requires additional development work and resulting expense.

In 1970 several decisions relating to allowable payments under Medicare "B" were made by the Social Security Administration, and it was necessary for us to convey these decisions to the physicians of Florida. Since these were not decisions that would win a popularity contest, we received a lot of return mail — which we attempted to answer as best we could, and as promptly as possible. Since the advent of Medicare we have had professional judgment on all

matters relating to fee determinations; in this way we have been able to insure the greatest possible consideration of the point of view of the practicing physician, and to vigorously present that point of view in our relationships with SSA officials. The number of paid claims in 1970 under Medicare "B" rose to 2,066,192 and amounted to \$115,114,830.14. This makes the Florida Blue Shield Plan one of the largest Medicare "B" carriers in the country.

No organization as large as Florida Blue Shield can function smoothly and efficiently unless it has many dedicated people. We are fortunate in that respect, and I want to pay my respects and extend my heartfelt appreciation to our Board of Directors, our Claims Committee, and our Officers and Staff for their continued efforts to make Florida Blue Shield the best in the nation.



J W Herbert

J. W. Herbert
Executive Vice President

FINANCIAL REPORT of Blue Shield of Florida, Inc.

At the end of its first full year of operation on May 31, 1947, Blue Shield of Florida reported total receipts of \$61,872.70, total disbursements of \$22,627.59 and total enrollment of 36,402.

Nothing speaks more eloquently of the Plan's growth and success than a comparison of these figures with those for 1970, the twenty-fifth year of our operation:

- Gross Income from Fees\$33,940,170.00
- Paid Claims for physician services\$28,714,682.00
- Enrollment1,304,487
- Income for 1970 represents a 22.53 percent increase over corresponding figures for the previous year.
- Claims paid in 1970 represent a 24.49 percent increase over the previous year.
- The 1970 enrollment represents a 9.7 percent gain over 1969 when enrollment stood at 1,189,184.

Other Figures for 1970 Include:

\$674,728 for our operating gain, compared with a gain of \$707,866 for 1969;

15.78 per cent of subscription fee income going for operating expenses in 1970 which represents a decrease of .88 per cent over 1969;

\$1,875,600 in reserve at the end of 1970 for unreported claims;

\$10,129,888 total reserve held against contingencies;

\$11,436,200 as the par value of our investments in bonds;

\$1,445,925 as the market value of our stock.

In Addition:

87,211 claims were handled by Blue Shield of Florida in 1970 as fiscal administrator of CHAMPUS, the Civilian Health and Medical Program for Uniform Services;

\$7,836,990.80 was the amount of disbursements to physicians for services rendered these CHAMPUS beneficiaries;

2,066,192 claims for Medicare beneficiaries under Title XVIII were handled by Blue Shield as fiscal intermediary for Part B in 1970;

\$114,916,818.19 was the total dollar amount of these Medicare claims;

55,852 claims under Title XIX of Medicare were handled in 1970 with claims payments amounting to \$1,006,746.23. These 1970 figures mark not only the end of one 25 year success story but also herald the beginning of a new one; Blue Shield will continue to play a vital part in providing voluntary health service to the community.

Respectfully submitted,

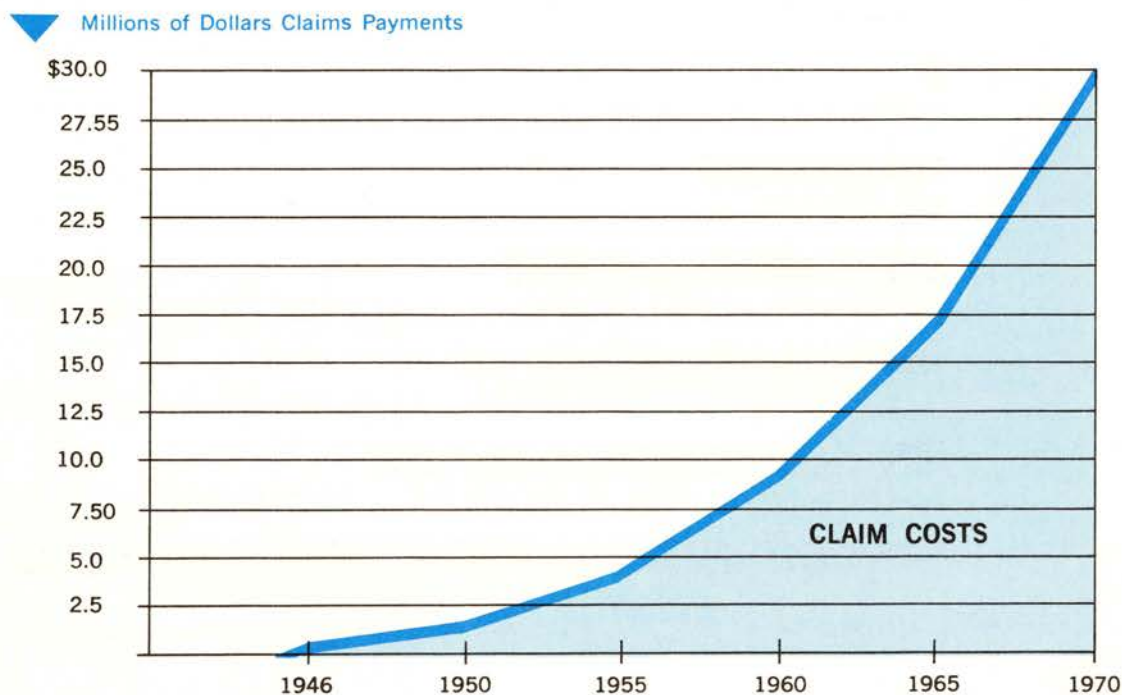
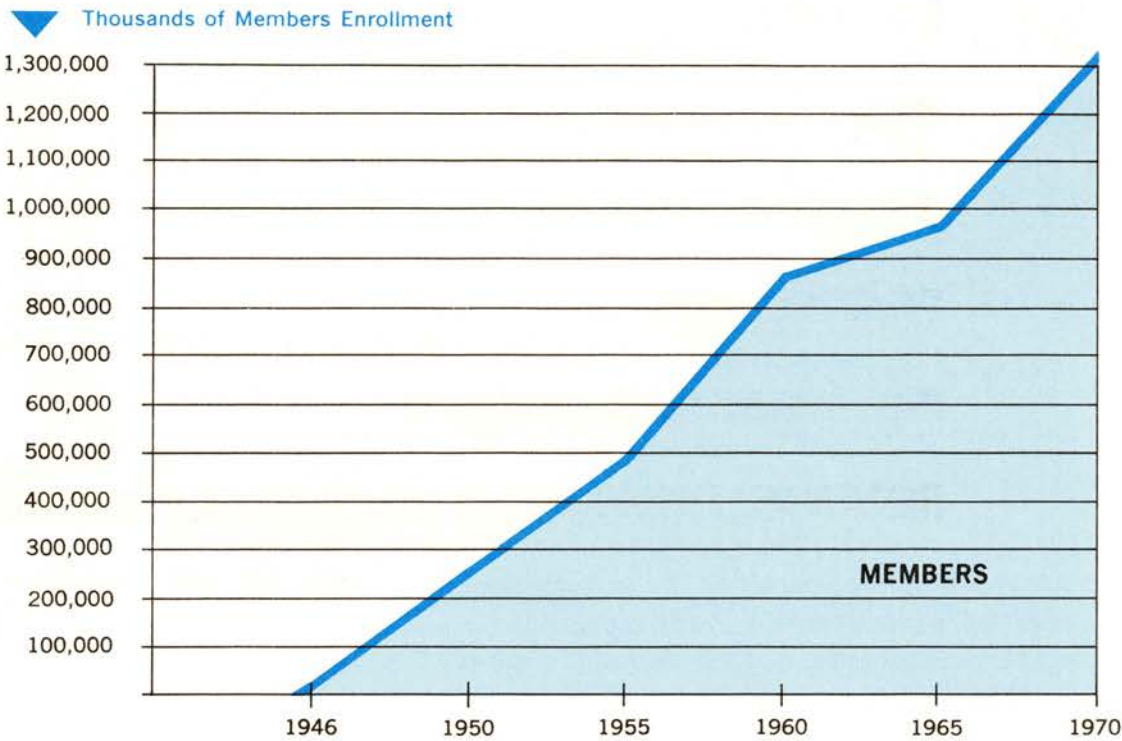


Leo M. Wachtel, M.D.
Treasurer

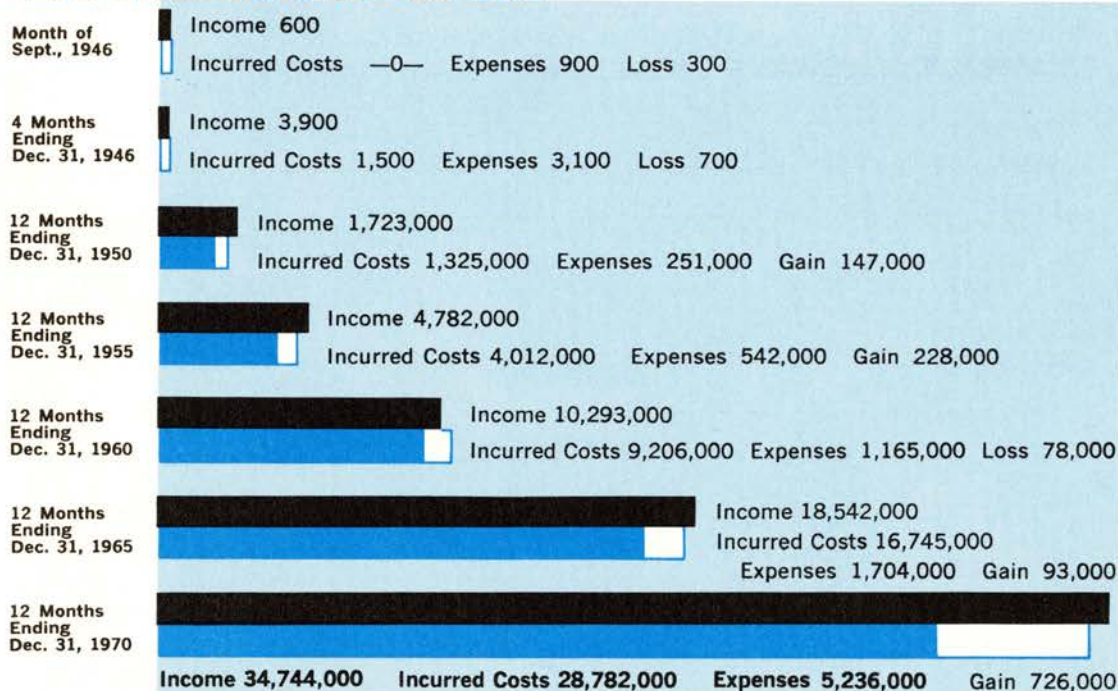


A FINANCIAL REVIEW of TWENTY-FIVE YEARS OF SERVICE

COMPARISON OF MEMBERS ENROLLED WITH CLAIM COSTS:



STATEMENT OF INCOME AND EXPENSES

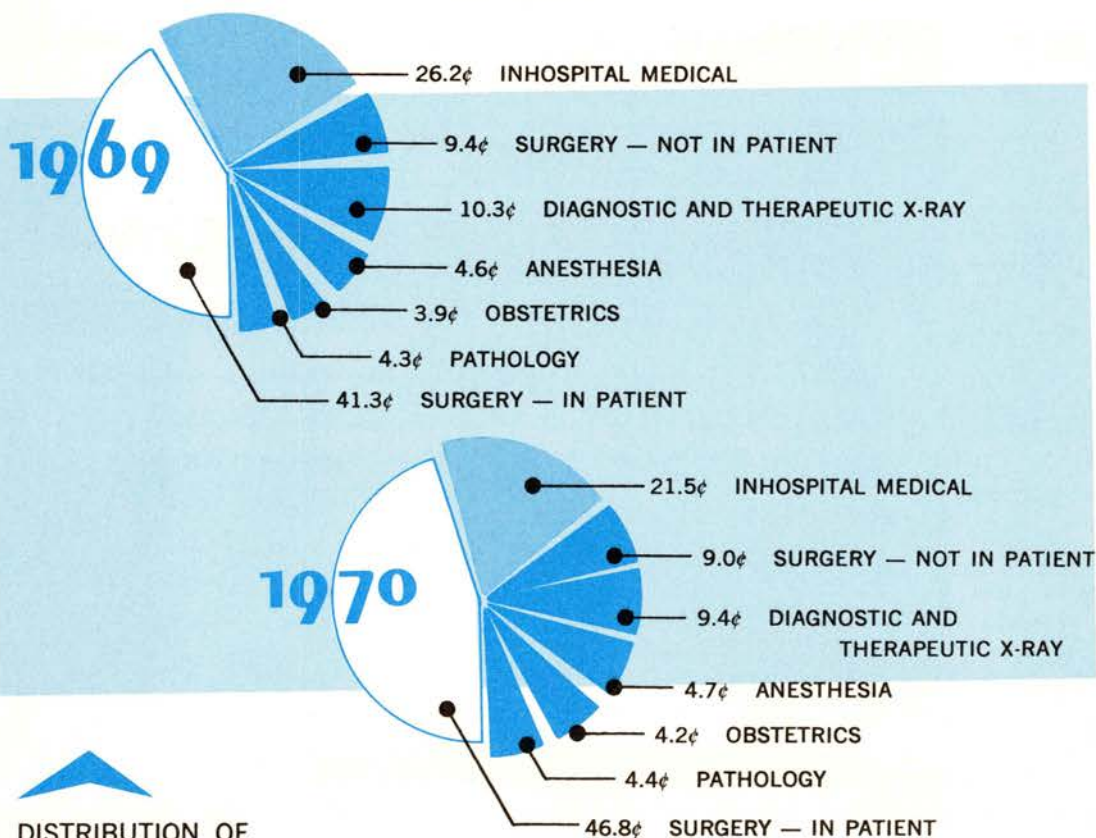


BALANCE SHEETS

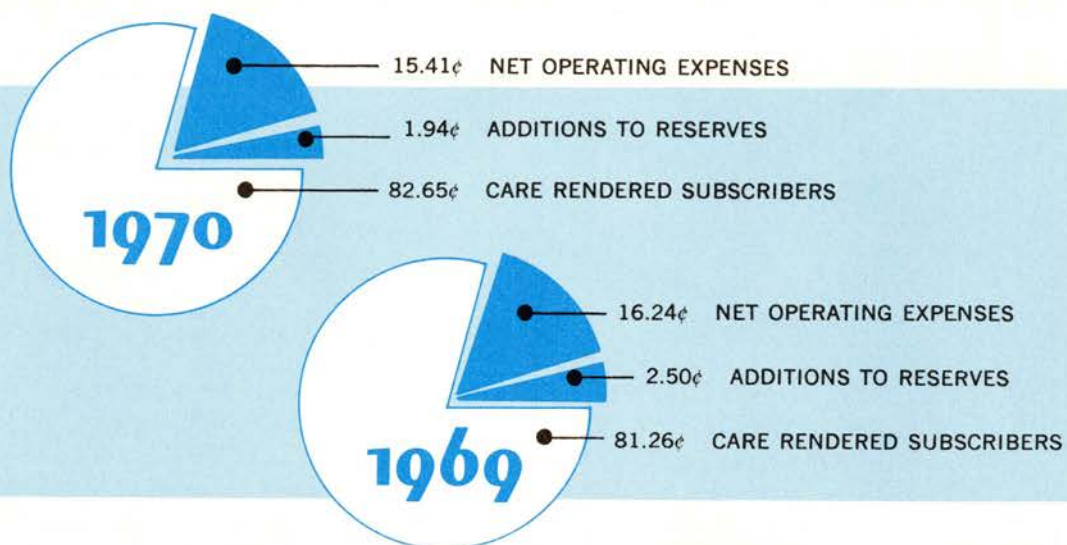


SIGNIFICANT COMPARISONS OF OPERATIONS BETWEEN 1970 AND 1969:

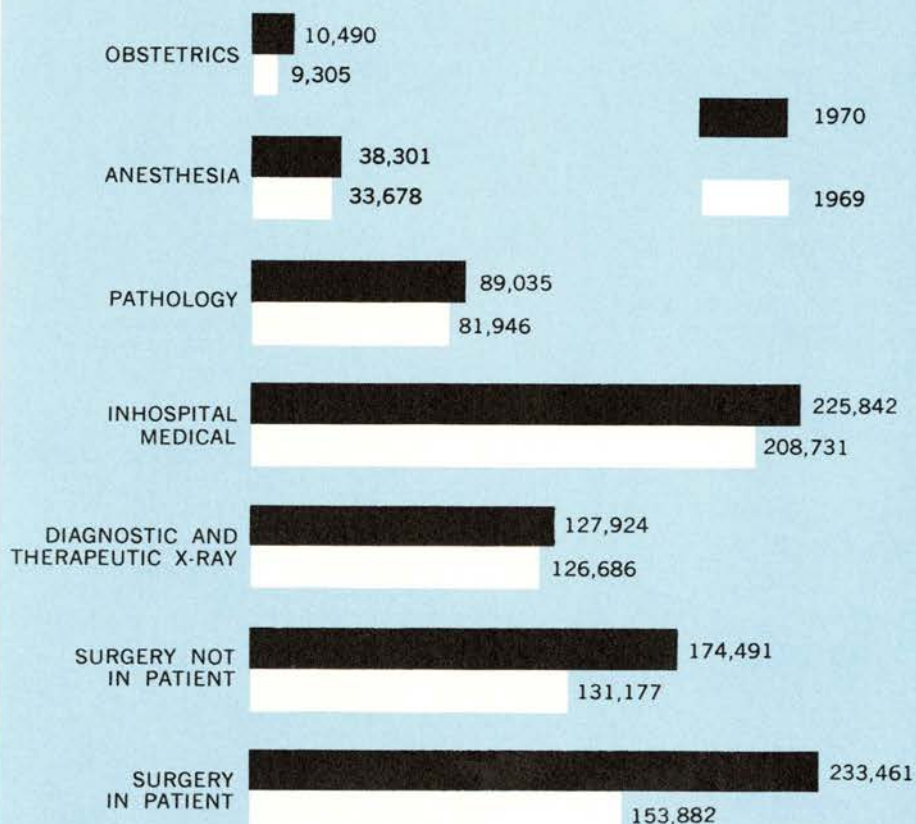
HOW YOUR BLUE SHIELD
DOLLAR WAS SPENT



DISTRIBUTION OF
THE BLUE SHIELD BENEFITS



NUMBER OF BLUE SHIELD CLAIMS PAID



ACCOUNTANT'S REPORT

LYBRAND, ROSS BROS. & MONTGOMERY
CERTIFIED PUBLIC ACCOUNTANTS

700 BARNETT NATIONAL BANK BUILDING
JACKSONVILLE, FLORIDA 32202
(904) 354-0671

COOPERS & LYBRAND
IN PRINCIPAL AREAS
OF THE WORLD

Officers and Directors
Blue Shield of Florida, Inc.:

We have examined the balance sheet of Blue Shield of Florida, Inc., as of December 31, 1970 and the related statement of operations and reserve for contingencies for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We previously examined and reported upon the financial statements for the year ended December 31, 1969.

In our opinion, the above-mentioned financial statements present fairly the financial position of Blue Shield of Florida, Inc., at December 31, 1970 and 1969, and the results of its operations for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Lybrand, Ross Bros. & Montgomery

February 26, 1971

BALANCE SHEET

DECEMBER 31, 1970 AND 1969

ASSETS	1970	1969
Cash	\$ 341,154	\$ 587,363
Investments, at cost (market value: \$12,618,041 in 1970 and \$11,483,002 in 1969)	12,991,264	12,207,419
Accrued interest receivable	182,580	161,589
Accounts receivable	1,574,596	2,113,246
Fixed assets, at cost less accumulated depreciation (Note 1)	3,630,804	
	<u>\$18,720,398</u>	<u>\$15,069,617</u>
LIABILITIES AND RESERVE FOR CONTINGENCIES		
Reserve for surgical and medical claims	\$ 4,103,769	\$ 3,856,807
Deferred income, subscriber fees paid in advance	1,194,693	975,122
Blue Cross of Florida, Inc.	480,115	178,363
Accounts Payable	376,238	180,888
Note payable, Blue Cross of Florida, Inc. (Note 1)	1,868,400	-
Mortgages payable	23,717	-
Deposits payable	543,578	422,877
Total liabilities	8,590,510	5,614,057
Reserve for contingencies	10,129,888	9,455,560
	<u>\$18,720,398</u>	<u>\$15,069,617</u>

STATEMENT OF OPERATIONS & RESERVE FOR CONTINGENCIES

FOR THE YEARS ENDED DECEMBER 31, 1970 AND 1969

Fees earned	\$33,940,170	\$27,685,759
Surgical and medical costs incurred	<u>28,714,682</u>	<u>23,070,042</u>
Excess of fees over surgical and medical costs incurred	5,225,488	4,615,717
Operating expenses (including Medicare reimbursement of \$7,055,191 in 1970 and \$6,424,198 in 1969)	<u>5,355,106</u>	<u>4,613,123</u>
Excess of fees over costs incurred and operating expenses	(129,618)	2,594
Investment income	<u>803,946</u>	<u>705,272</u>
Net addition to reserve for contingencies	674,328	707,866
Reserve for contingencies at beginning of year	9,455,560	7,747,694
Add reduction of claim reserve (Note 4)		1,000,000
		<u>8,747,694</u>
Reserve for contingencies at end of year	<u>\$10,129,888</u>	<u>\$ 9,455,560</u>

The accompanying notes are an integral part of the financial statements.

NOTES TO FINANCIAL STATEMENTS



The Company, under an agreement to own equally with Blue Cross of Florida, Inc., the land and buildings utilized by the companion companies, purchased 50 percent of the land and buildings owned by Blue Cross as of January 1, 1970. In consideration of the sales price of \$2,076,000 the Company issued a note which is payable in quarterly installments of \$51,900 for ten years plus interest at a rate equal to the yield of the investment portfolio of Blue Cross of Florida during the previous year. During 1970 the Company also reimbursed Blue Cross for one-half of the cost of a parking garage under construction adjacent to the home office in Jacksonville.

The Company has charged the cost of furniture and equipment purchased during 1970 to operating expenses. Prior to 1970 such assets were acquired by Blue Cross and charged to its operations. The effect on the financial statements is immaterial.

Depreciation of buildings, computed under the straight-line method, was \$53,978 for 1970.



The Company in conjunction with Blue Cross of Florida participates in a nationally administered pension plan which covers substantially all of its employees. The plan is non-contributory; vesting occurs after 10 years of service and the attainment of age 40. The pension expense for 1970 and 1969 was \$256,254 and \$131,278, respectively, which covered the normal cost and amortization of past service costs over 10 years. It is the policy of the Company to fund pension costs accrued. The fund assets exceeded the value of vested benefits as of December 31, 1970.



As a carrier of the Medicare, Part B Program, and as contractor of the CHAMPUS programs, the Company disburses government funds to physicians and others on the basis of incurred claims. Neither the amounts of remittances received nor the corresponding amounts for claims paid are reflected in the accompanying statement of operations. Charges payable to the Company by the government agencies for the administration of the programs have been recorded on the basis of cost computations considered to be reasonable and supportable. These allowances are now under examination by government auditors for the years 1967, 1968 and 1969. Adjustments, if any, which may ultimately result from final determination of reimbursable amounts, are not expected to have a material effect on the financial statements.



During 1969 the reserve for surgical and medical claims was restated from amounts previously reported to reflect an adjustment of \$1,000,000 in the Medicare complementary coverage reserve, which management considered excessive. In the opinion of management, it is not possible to determine the prior year or years to which this adjustment is applicable.

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President
Ben C. Willis
Vice Chairman of the Board of Directors
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Secretary
Leo M. Wachtel, M.D.
Treasurer
J. W. Herbert
Executive Vice President
W. J. Stansell
Senior Vice President
J. D. Lewis, Jr.
Vice President, Physician Affairs

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Robert E. Zellner, M.D.

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